

REGULATION OF MEMBER OF BOARD OF GOVERNORS

NUMBER 20/18/PADG/2018

ON

HEDGE SWAP TRANSACTIONS TO BANK INDONESIA

BY THE BLESSINGS OF THE ALMIGHTY GOD

MEMBER OF BOARD OF GOVERNORS OF BANK INDONESIA,

- Considering :
- a. that Bank Indonesia aims to achieve and maintain rupiah rate stability;
 - b. that rupiah rate stability needs to be supported by efforts to strengthen foreign reserves;
 - c. that to strengthen foreign reserves, Bank Indonesia develops hedging activities related to economic activities through development of swap transactions for hedging to Bank Indonesia;
 - d. that it is necessary to improve implementing regulations to support development of swap transactions for hedging to Bank Indonesia;
 - e. that based on the foregoing considerations set forth from letter a until letter d, it is necessary to establish Regulation of Member of the Board of Governors on Hedge Swap Transactions to Bank Indonesia;

Observing : Bank Indonesia Regulation Number 15/17/PBI/2013 on Hedge Swap Transactions to Bank Indonesia (State Gazette of the Republic of Indonesia of 2013 Number 237, Supplement to State Gazette of the Republic of Indonesia Number 5480) as last amended by Bank Indonesia Regulation Number 18/13/PBI/2016 on the Third Amendment to Bank Indonesia Number 15/17/PBI/2013 on Hedge Swap Transactions to Bank Indonesia (State Gazette of Republic of Indonesia of 2016 Number 173, Supplement to State Gazette of the Republic of Indonesia Number 5920);

HAS DECIDED:

To issue : REGULATION OF MEMBER OF BOARD OF GOVERNORS ON HEDGE SWAP TRANSACTIONS TO BANK INDONESIA.

CHAPTER I

GENERAL PROVISIONS

Article 1

In this Regulation:

1. Bank means a commercial bank as specified in Law Number 7 of 1992 on Banks as amended by Law Number 10 of 1998, including branch offices of foreign banks in Indonesia, but excluding banks lawfully incorporated in Indonesia and operating overseas.
2. Purchase Swap Transaction by a Bank to Bank Indonesia means exchange of two currencies through spot selling with termed repurchase simultaneously with Bank Indonesia at a premium or discount and exchange rates prepared and agreed on a transaction date.
3. Hedge Swap Transaction to Bank Indonesia means purchase swap transaction by a Bank in a foreign currency against rupiah for hedging conducted between the Bank and Bank Indonesia.
4. Underlying Hedge Swap Transaction to Bank Indonesia, hereinafter referred to as Underlying Transaction, means

an activity that becomes the basis for Hedge Swap Transaction to Bank Indonesia.

5. Resident means an individual, legal person, or any other entities that domicile or plan to domicile in Indonesia for at least 1 (one) year, including the Republic of Indonesia's diplomatic representative and staff overseas.
6. Offshore Loan means a Resident's obligation to a non-Resident in a foreign currency.
7. Direct Investment in Indonesia, hereinafter referred to as Direct Investment, means direct long-term investment, not through a capital market, by a foreign investor to conduct business activities within the Republic of Indonesia.
8. Hedging Contract means information from a Bank submitted to Bank Indonesia containing a plan for the term and amount of Underlying Transactions used as the basis for Hedge Swap Transactions to Bank Indonesia, by means of transactions determined by Bank Indonesia.
9. Daily Report System of Commercial Bank, hereinafter referred to as LHBUS System, means the daily reporting medium of a Bank to Bank Indonesia, including provision of money market information and announcement from Bank Indonesia.

CHAPTER II

HEDGE SWAP TRANSACTIONS TO BANK INDONESIA

Article 2

- (1) A Bank may conduct Hedge Swap Transactions to Bank Indonesia.
- (2) Hedge Swap Transactions to Bank Indonesia is conducted in a foreign currency against rupiah.
- (3) A Bank which conducts Hedge Swap Transactions to Bank Indonesia set forth in paragraph (1) must be classified as a Bank conducting activities in a foreign currency with the lowest composite rank of 3 (three).

- (4) Requirements for the composite rank set forth in paragraph (3) also apply to a Bank which extends its Hedge Swap Transactions to Bank Indonesia.
- (5) The Hedge Swap Transactions to Bank Indonesia set forth in paragraph (1) must meet the following requirements:
 - a. must be conducted based on an Underlying Transaction owned by a Bank or customer;
 - b. the period of the Underlying Transaction must be equal to or longer than the Bank's Hedging Contract term; and
 - c. the maximum nominal amount of the Hedge Swap Transaction to Bank Indonesia must be equal to that of the Underlying Transaction.
- (6) In terms of the Underlying Transaction owned by a Bank set forth in paragraph (5) letter a, the scope of the Underlying Transaction shall include:
 - a. Offshore Loan in the form of loan agreement and/or issuance of debt securities; and/or
 - b. declared business fund.
- (7) In terms of the Underlying Transaction owned by a customer set forth in paragraph (5) letter a, the scope of the Underlying Transaction includes selling swap transactions between a Bank and customer related to the Hedging for:
 - a. Offshore Loan in the form of loan agreement and/or issuance of debt securities;
 - b. Direct Investment;
 - c. foreign exchange from exports;
 - d. investment in construction and development of public and/or production facilities;
 - e. investment in securities issued by the Government of the Republic of Indonesia; and/or
 - f. investment in other economic activities.

CHAPTER III
DOCUMENTS OF HEDGE SWAP TRANSACTIONS TO BANK
INDONESIA

Article 3

Documents to be used for Underlying Transactions of a Bank in Hedge Swap Transactions to Bank Indonesia set forth in Article 2 paragraph (6) take the following forms:

- a. if an Underlying Transaction takes the form of Offshore Loan under a loan agreement set forth in Article 2 paragraph (6) letter a, the Underlying Transaction document shall be the loan agreement between a Bank and its creditor;
- b. if an Underlying Transaction takes the form of Offshore Loan under issuance of debt securities set forth in Article 2 paragraph (6) letter a, the Underlying Transaction document shall be the sales report of the debt securities, including those issued by a global custody; and
- c. if an *Underlying* Transaction takes the form of declared business fund set forth in Article 2 paragraph (6) letter b, the *Underlying* Transaction document shall be:
 - 1) letter of declared business fund from a Bank's head office or from the Bank to the competent authority in the unchanged declared business fund; or
 - 2) approval letter from the competent authority in the change of declared business fund submitted by a Bank's head office or a Bank for the changed declared business fund.

Article 4

The document used for a customer's Underlying Transaction in a Hedge Swap Transaction to Bank Indonesia set forth in Article 2 paragraph (7) takes the form of selling swap transaction document between a Bank and customer in the form of deal ticket or contract.

Article 5

Documents used for a customer's Underlying Transaction set forth in Article 2 paragraph (7) are as follows:

- a. if an Underlying Transaction takes the form of Offshore Loan under a loan agreement set forth in Article 2 paragraph (7) letter a, the Underlying Transaction document shall be the loan agreement between the customer and its creditor;
- b. if an Underlying Transaction takes the form of Offshore Loan under issuance of debt securities set forth in Article 2 paragraph (7) letter a, the Underlying Transaction document shall be the sales report of the debt securities, including those issued by a global custody;
- c. if an Underlying Transaction takes the form of Direct Investment set forth in Article 2 paragraph (7) letter b, the Underlying Transaction document shall be documents on investment realization;
- d. if an Underlying Transaction takes the form of foreign exchange from exports set forth in Article 2 paragraph (7) letter c, the Underlying Transaction documents shall be:
 - 1) authenticated Society for Worldwide Interbank Financial Telecommunication (SWIFT) message MT910 containing information on receipt of foreign exchange from exports;
 - 2) bank guarantee; or
 - 3) any document related to export activities including:
 - a) contract between an exporter and importer; and
 - b) statement letter from an exporter supported by ownership evidence of foreign exchange in the form of copy of saving book or deposit slip or any other document declaring that the foreign currency owned by an exporter is the fund source of the export activities;
- e. if an Underlying Transaction takes the form of investment in construction and development of public and/or production facilities set forth in Article 2 paragraph (7) letter d, the Underlying Transaction documents shall be:

- 1) if an infrastructure project owner is a government, the document shall be a project approval letter from the competent institution;
 - 2) if an infrastructure project owner is a non-government institution, the document shall be a project approval letter from the project owner;
- f. if an Underlying Transaction takes the form of investment in securities issued by the Government of the Republic of Indonesia set forth in Article 2 paragraph (7) letter e, the Underlying Transaction document shall be a plan for investment in securities issued by the Government, and/or evidence of actual investment in securities issued by the Government.

Article 6

Bank Indonesia may determine additional documents for an Underlying Transaction in relation to the documents set forth in Article 3 and Article 5.

Article 7

- (1) If an Underlying Transaction only has 1 (one) type of foreign currency, a Bank may not use the same Underlying Transaction for more than:
 - a. 1 (one) Hedging Contract; and
 - b. 1 (one) Hedge Swap Transaction to Bank Indonesia.
- (2) If an Underlying Transaction only has more than 1 (one) type of foreign currency, a Bank may use the same Underlying Transaction for:
 - a. more than 1 (one) Hedging Contract; and
 - b. more than 1 (one) Hedge Swap Transaction to Bank Indonesia,

declared in each foreign currency.
- (3) A Bank may not use the Underlying Transaction set forth in paragraph (2) for more than 1 (one) Hedging Contract and 1 (one) Hedge Swap Transaction to Bank Indonesia with the same type of foreign currency.

Article 8

- (1) A Bank must be responsible for the following complete documents:
 - a. the Bank's original Underlying Transaction document set forth in Article 3;
 - b. a customer's original Underlying Transaction document set forth in Article 4; and
 - c. a customer's Underlying Transaction document copy set forth in Article 5.
- (2) A Bank is responsible for the administration of the complete document set forth in paragraph (1).
- (3) The document set forth in paragraph (1) letter c must be received by a Bank from a customer no later than 1 (one) month after the date of Hedge Swap Transaction to Bank Indonesia.

CHAPTER IV

HEDGE SWAP TRANSACTIONS TO BANK INDONESIA

Section One

Implementation of Hedge Swap Transactions to Bank Indonesia

Article 9

A Hedge Swap Transaction to Bank Indonesia is conducted through purchase swap transaction to Bank Indonesia in a foreign currency against rupiah for hedging conducted between the Bank and Bank Indonesia.

Article 10

A Hedge Swap Transaction to Bank Indonesia is conducted on business days.

Article 11

- (1) Hedge Swap Transactions to Bank Indonesia may have a period of 3 (three) months, 6 (six) months, or 12 (twelve)

months, starting from 1 (one) day after a value date or settlement date until the due date.

- (2) The value date or settlement date set forth in paragraph (1) shall be no later than 2 (two) business days after a Hedge Swap Transaction date to Bank Indonesia.

Article 12

- (1) The type of foreign currency in a Hedge Swap Transaction to Bank Indonesia shall follow the type of foreign currency announced by Bank Indonesia no later than the opening of the transaction’s window time.
- (2) The minimum bid nominal value proposed in a Hedge Swap Transaction to Bank Indonesia and its multiples are announced by Bank Indonesia through LHBUS System and/or any other means of information determined by Bank Indonesia, at the maximum bid nominal value equal to the Underlying Transaction’s value.

Article 13

A Hedge Swap Transaction to Bank Indonesia in United States dollar against rupiah shall use the spot rate, namely Jakarta Interbank Spot Dollar Rate, on the transaction date.

Article 14

- (1) A Hedge Swap Transaction to Bank Indonesia in other foreign currencies other than United States dollar against rupiah shall use the spot rate, namely the transaction middle rate of Bank Indonesia, on the transaction date.
- (2) The transaction middle rate of Bank Indonesia set forth in paragraph (1) shall be calculated by using the following formula:

$$\text{Transaction Middle Rate of Bank Indonesia} = \frac{\text{Transaction Sell Rate of Bank Indonesia} + \text{Transaction Buy Rate of Bank Indonesia}}{2}$$

Section Two

Announcement of Hedge Swap Transactions to Bank Indonesia

Article 15

Bank Indonesia will announce a Hedge Swap Transaction to Bank Indonesia no later than the opening of the transaction's window time through LHBUS System and/or any other means of information determined by Bank Indonesia.

Article 16

The window time of Hedge Swap Transaction to Bank Indonesia set forth in Article 10 and Article 15 starts from 14.00 West Indonesia Time until 16.00 West Indonesia Time or any other time determined by Bank Indonesia.

Article 17

Announcement of Hedge Swap Transactions to Bank Indonesia set forth in Article 15 includes:

- a. period of swap transaction;
- b. swap premium;
- c. transaction date;
- d. transaction window time;
- e. value date or settlement date;
- f. JISDOR or transaction middle rate of Bank Indonesia;
- g. type of foreign currency;
- h. the minimum bid amount and its multiples;
- i. means of submission of Hedging Contract and Hedge Swap Transaction to Bank Indonesia; and/or
- j. other information.

Section Three

Submission of Hedging Contract

Article 18

A Hedging Contract is submitted by a Bank together with a Hedge Swap Transaction to Bank Indonesia by the means of transactions determined by Bank Indonesia.

Article 19

The Hedging Contract set forth in Article 18 shall be effective on a value date or settlement date.

Article 20

- (1) The Hedging Contract set forth in Article 18 includes the following information:
 - a. Bank name;
 - b. period of Hedging Contract;
 - c. the Underlying Transaction set forth in Article 3 and/or Article 5;
 - d. type of foreign currency; and
 - e. the Underlying Transaction's nominal value specified in the Hedging Contract.
- (2) Examples of nominal value and Underlying Transaction specified in the Hedging Contract set forth in paragraph (1) are specified in Appendix I, which constitutes an inseparable part of this Regulation.

Article 21

A Bank is responsible for the accuracy of data contained in a Hedging Contract submitted to Bank Indonesia.

Section Four

Submission of Hedge Swap Transactions to Bank Indonesia

Article 22

A Bank shall submit a Hedge Swap Transaction to Bank Indonesia directly, not through an intermediary institution.

Article 23

The submission of Hedge Swap Transactions to Bank Indonesia set forth in Article 22 shall be conducted by the means of transactions determined by Bank Indonesia.

Article 24

The submitted Hedge Swap Transaction to Bank Indonesia contains the following information:

- a. Bank name;
- b. type of foreign currency;
- c. type of Underlying Transaction document;
- d. period and nominal value of the Underlying Transaction specified in the Hedging Contract;
- e. transaction date;
- f. value date or settlement date;
- g. period of transaction;
- h. due date;
- i. nominal value;
- j. a Bank's foreign currency account number with a correspondent bank;
- k. a Bank's rupiah checking account number with Bank Indonesia; and
- l. other information if required.

Article 25

- (1) Any submitted Hedging Contract set forth in Article 18, Article 19, and Article 20 must contain a Bank's statement that all requirements for a Hedge Swap Transaction to Bank Indonesia have been fulfilled.
- (2) If a Bank makes a Hedge Swap Transaction to Bank Indonesia whose Underlying Transaction is declared business fund without any information on the term of the declared business fund, the statement set forth in paragraph (1) must include information on the term of the declared business fund.
- (3) An example of a Bank's statement of the fulfillment of requirements for a Hedge Swap Transaction to Bank Indonesia set forth in paragraph (1) and paragraph (2) is specified in Appendix II, which constitutes an inseparable part of this Regulation.

Article 26

After Bank Indonesia receives the submitted Hedging Contract set forth in Article 18 and Hedge Swap Transaction to Bank Indonesia set forth in Article 23, Bank Indonesia will give the reference number to Bank Indonesia for each Hedging Contract.

Article 27

- (1) If the submitted Hedge Swap Transaction to Bank Indonesia set forth in Article 22 is corrected, a Bank may only submit its correction 1 (one) time for each Hedge Swap Transaction to Bank Indonesia submitted within the window time set forth in Article 16.
- (2) If the nominal value is corrected as set forth in paragraph (1), the nominal value must meet the provisions set forth in Article 12 paragraph (2).

Article 28

A Bank is responsible for the accuracy of data contained in a Hedge Swap Transaction to Bank Indonesia submitted to Bank Indonesia.

Article 29

Any Hedge Swap Transactions to Bank Indonesia which have been submitted to Bank Indonesia may not be canceled by a Bank.

Article 30

A Hedging Contract will terminate if a Hedge Swap Transaction to Bank Indonesia ends and the Bank does not extend the contract.

Article 31

Bank Indonesia may reject a submitted Hedging Contract and Hedge Swap Transaction to Bank Indonesia.

Part Five

Confirmation of Submitted Hedge Swap Transactions to Bank Indonesia

Article 32

Bank Indonesia will request a Bank to confirm its submission of Hedge Swap Transaction to Bank Indonesia by the means of transaction determined by Bank Indonesia, the confirmation of which must include:

- a. type of foreign currency;
- b. nominal value;
- c. period of transaction;
- d. value date;
- e. due date;
- f. JISDOR or transaction middle rate of Bank Indonesia;
- g. forward rate;
- h. swap premium;
- i. a Bank's foreign currency account number with a correspondent bank;
- j. a Bank's rupiah giro account number with Bank Indonesia; and
- k. other information if required.

Part Six

Settlement of Hedge Swap Transactions to Bank Indonesia

Part One

Settlement Obligations

Article 33

A Bank is responsible for the settlement of Hedge Swap Transactions to Bank Indonesia.

Part Two
First Leg Settlement

Article 34

- (1) Bank Indonesia may conduct first leg settlement within 2 (two) business days at the maximum after the date of a Hedge Swap Transaction to Bank Indonesia by crediting a Bank's rupiah checking account in an amount equal to the first leg settlement.
- (2) The value of the first leg settlement set forth in paragraph (1) is calculated equal to the submitted foreign currency nominal value multiplied by:
 - (a) JISDOR spot rate if the foreign currency used is United States dollar; or
 - (b) the transaction middle rate of Bank Indonesia if the foreign currency used is non-United States dollar.

Article 35

- (1) A Bank must settle the fund transfer in foreign currency to Bank Indonesia's account with a correspondent bank on a value date or settlement date of the first leg settlement.
- (2) If on the first leg settlement date, a Bank fails to settle the fund transfer in foreign currency set forth in paragraph (1) in an amount equal to the submitted transaction value, the Bank must settle the submitted fund transfer in foreign currency on the following business day.

Part Three
Second Leg Settlement

Article 36

- (1) On the due date of a Hedge Swap Transaction to Bank Indonesia or in the second leg, Bank Indonesia will transfer fund in foreign currency to a Bank's account with a correspondence bank in an amount equal to the nominal value in the first leg settlement.

- (2) Bank Indonesia will debit a Bank's rupiah checking account in an amount equal to the nominal value in foreign currency on the first leg settlement multiplied by the rate in the second leg settlement.
- (3) The rate of the second leg settlement set forth in paragraph (2) shall be the spot rate on the transaction date plus swap premium paid by a Bank to Bank Indonesia.

Article 37

- (1) A Bank must provide fund in rupiah on the value date or second leg settlement date in the Bank's rupiah checking account to Bank Indonesia.
- (2) If on the date of the second leg settlement, a Bank does not have adequate amount of rupiah fund to meet the settlement obligation set forth in paragraph (1), the Bank must provide rupiah fund in an adequate amount to meet the settlement obligation on the following business day.
- (3) Payment of the nominal amount of Hedge Swap Transaction to Bank Indonesia set forth in paragraph (1) shall be conducted by debiting a Bank's rupiah checking account with Bank Indonesia.

Article 38

If, after a Hedge Swap Transaction to Bank Indonesia, the date of the first leg settlement set forth in Article 35 and/or the second leg settlement set forth in Article 37 is determined as a holiday by the government, the settlement will be conducted on the following business day without calculating any premium decrease and/or increase for the holiday.

CHAPTER V
EXTENSION OF HEDGING CONTRACTS AND HEDGE SWAP
TRANSACTIONS TO BANK INDONESIA

Section One
Implementation of Extension of Hedging Contracts and Hedge
Swap Transactions to Bank Indonesia

Article 39

- (1) A Bank may submit:
 - a. extension of Hedging Contracts; and/or
 - b. extension of Hedge Swap Transactions to Bank Indonesia.
- (2) The maximum extension period of a Hedging Contract shall be the same as the remaining period of the Underlying Transaction, with the maximum contract extension period shall be 3 (three) years.
- (3) A Bank may submit extension of a Hedge Swap Transaction to Bank Indonesia to the extent that a Hedging Contract still has remaining validity term.
- (4) The extension terms of a Hedge Swap Transaction to Bank Indonesia are 3 (three) months, 6 (six) months, 12 (twelve) months, or according to the remaining term of a Hedging Contract, with the shortest transaction extension term of 3 (three) months and the longest of 12 (twelve) months.

Article 40

- (1) A Bank submitting extension of a Hedging Contract to Bank Indonesia must meet the following requirements:
 - a. use the same type of Underlying Transaction as the one specified in the original Hedging Contract;
 - b. if the Underlying Transaction set forth in letter a is owned by a Bank, the maximum nominal value of extension of Hedging Contract to Bank Indonesia is equal to the outstanding Offshore Loan or declared business fund of the Bank; and

- c. the maximum extension period of a Hedging Contract to Bank Indonesia shall be the same as the remaining period of the Underlying Transaction, and the maximum contract extension period shall be 3 (three) years.
- (2) A Bank submitting extension of a Hedge Swap Transaction to Bank Indonesia must meet the following requirements:
 - a. use a valid Hedging Contract;
 - b. use the same type of Underlying Transaction as the reference number specified in the Hedging Contract;
 - c. if the Underlying Transaction set forth in letter b is owned by a Bank, the maximum nominal value of extension of Hedge Swap Transaction to Bank Indonesia is equal to the outstanding Offshore Loan or declared business fund of the Bank; and
 - d. the extension terms of a Hedge Swap Transaction to Bank Indonesia are 3 (three) months, 6 (six) months, 12 (twelve) months, or according to the remaining term of a Hedging Contract, with the shortest transaction extension term of 3 (three) months and the longest of 12 (twelve) months.
- (3) A Bank submitting extension of Hedge Swap Transaction to Bank Indonesia must specify in the deal conversation the reference number of the relevant Hedging Contract.

Article 41

- (1) A Bank shall propose extension of a Hedging Contract to Bank Indonesia within 2 (two) business days prior to the Hedging Contract due date.
- (2) A Bank shall propose extension of a Hedge Swap Transaction to Bank Indonesia within 2 (two) business days prior to the due date of the Hedge Swap Transaction to Bank Indonesia.

Article 42

- (1) The window time for proposing extension of Hedging Contract and/or Hedge Swap Transaction to Bank

Indonesia is 14.00 West Indonesia Time until 16.00 West Indonesia Time.

- (2) If a Bank proposes extension of Hedge Swap Transaction to Bank Indonesia with a term corresponding to the remaining term of a Hedging Contract for terms other than 3 (three) months, 6 (six) months, 12 (twelve) months with the shortest extension time of 3 (three) months and the longest of 12 (twelve) months, such proposal shall be submitted no later than 30 (thirty) minutes after the opening of the transaction window time.

Article 43

- (1) For the extension of Hedge Swap Transactions to Bank Indonesia proposed by a Bank set forth in Article 42 paragraph (2), Bank Indonesia will directly inform the Bank of the swap premium according to the term proposed by the Bank by the means determined by Bank Indonesia during the transaction window time.
- (2) A Bank which proposes extension of Hedging Contract will follow the same procedure as the proposal in the initial Hedging Contract as set forth in Article 18, Article 19, and Article 20.
- (3) A Bank which proposes extension of Hedge Swap Transaction to Bank Indonesia will follow the same procedure as the proposal in the initial Hedge Swap Transaction to Bank Indonesia as set forth in Article 22 until Article 25 and Article 27 until Article 30.
- (4) A Bank which proposes extension of Hedging Contract and/or extension of Hedge Swap Transaction to Bank Indonesia must inform the Hedging Contract reference number provided by Bank Indonesia to the Bank upon receipt of the proposed initial Hedging Contract.

Article 44

Bank Indonesia may reject the proposed extension of Hedging Contract and extension of Hedge Swap Transaction to Bank

Indonesia as set forth in Article 40 paragraph (1) and paragraph (2).

Article 45

- (1) The proposal for Hedge Swap Transaction to Bank Indonesia shall be submitted in the form of deal conversation by the means of transactions determined by Bank Indonesia with the following scope:
 - a. submission of Hedging Contract;
 - b. submission of Hedge Swap Transaction to Bank Indonesia;
 - c. extension of Hedging Contract; and
 - d. extension of Hedge Swap Transaction to Bank Indonesia.
- (2) An example of the deal conversation format set forth in paragraph (1) is specified in Appendix III, which constitutes an inseparable part of this Regulation.

Section Two

Confirmation of Extension of Hedging Contracts and Hedge Swap Transactions to Bank Indonesia

Article 46

Bank Indonesia will request a Bank to confirm its submission of extension of Hedge Swap Transaction to Bank Indonesia by the means of transaction determined by Bank Indonesia, the confirmation of which must include:

- a. type of foreign currency;
- b. nominal value of transaction;
- c. period of transaction;
- d. value date;
- e. due date;
- f. JISDOR or transaction middle rate of Bank Indonesia;
- g. forward rate;
- h. swap premium;
- i. netting nominal value in foreign currency and rupiah if the settlement is made in netting;

- j. the Bank's account number with a correspondent bank;
- k. a Bank's rupiah checking account number with Bank Indonesia; and
- l. other information.

Section Three

Settlement of Extension of Hedging Contracts and Hedge Swap Transactions to Bank Indonesia

Article 47

- (1) Settlement of extension of Hedge Swap Transaction to Bank Indonesia may be conducted in netting, including during the extension of Hedging Contract.
- (2) If a Bank settles extension of Hedge Swap Transaction to Bank Indonesia in netting as set forth in paragraph (1), the Bank must disclose the settlement method during the submission of the extension of the Hedge Swap Transaction to Bank Indonesia.

Article 48

The netting settlement for the extension of Hedge Swap Transaction to Bank Indonesia including during the extension of Hedging Contract shall cover:

- a. netting for the same nominal value at each extension;
- b. netting for the smaller nominal value at each extension; or
- c. netting for the nominal value according to the outstanding Offshore Loan or declared business fund of a Bank at each extension period.

Article 49

- (1) Netting settlement for the same nominal value at each extension set forth in Article 48 letter a is conducted under the following mechanism:
 - a. netting settlement value in rupiah is calculated with the following formula:

Netting Settlement Value

=

Nominal Value in Foreign Currency

x

Initial 2nd Leg Settlement Rate Hedging Swap Transaction to Bank Indonesia

-

1st Leg Settlement Rate at Extension

- b.

if the calculation set forth in letter a has a negative slippage, Bank Indonesia will credit a Bank’s rupiah checking account in an amount equal to the calculation result set forth in letter a; or
- c.

if the calculation set forth in letter a has a positive slippage, Bank Indonesia will debit a Bank’s rupiah checking account in an amount equal to the calculation result set forth in letter a.
- (2)

Example of netting settlement calculation for the same nominal value is specified in Appendix IV and Appendix V, which constitutes an inseparable part of this Regulation.

Article 50

- (1)

Netting settlement for smaller nominal value at each extension set forth in Article 48 letter b is conducted under the following mechanism:
- a.

netting settlement value in foreign currency is calculated with the following formula:

Netting Settlement Value

=

Nominal Value in Foreign Currency at Initial Hedging Swap Transaction to Bank Indonesia

-

Nominal Value in Foreign Currency at Extension of Hedge Swap Transaction to Bank Indonesia

- b.

Bank Indonesia will transfer fund in foreign currency to a Bank’s account with a correspondent bank in an amount equal to the netting settlement value set forth in letter a;
- c.

netting settlement value in rupiah is calculated as follows:

Netting Settlement Value

=

Nominal Value in Foreign Currency at Initial Hedging Swap Transaction to Bank Indonesia

x

Initial 2nd Leg Settlement Rate Hedging Swap Transaction to Bank Indonesia

-

Nominal Value in Foreign Currency at Extension of Hedging Swap Transaction to Bank Indonesia

x

1st Leg Settlement Rate at Extension of Hedging Swap Transaction to Bank Indonesia

- d.

if the calculation set forth in letter c has a positive slippage, Bank Indonesia will debit the Bank’s rupiah

checking account in an amount equal to the calculation result set forth in letter c; or

- e. if the calculation set forth in letter c has a negative slippage, Bank Indonesia will credit a Bank's rupiah checking account in an amount equal to the calculation result set forth in letter c.
- (2) Example of netting settlement calculation for smaller nominal value at each extension is specified in Appendix VI and Appendix VII, which constitutes an inseparable part of this Regulation.

Article 51

- (1) *Netting* settlement for the nominal value according to the outstanding Offshore Loan or declared business fund of a Bank at each extension period set forth in Article 48 letter c is conducted under the following provisions:
- a. if an Underlying Transaction is an Offshore Loan under a loan agreement, the value of the extension of Hedge Swap Transaction to Bank Indonesia will be adjusted to the value of the outstanding Offshore Loan, which has changed according to the payment schedule for installments of Offshore Loan to the creditor;
 - b. if an Underlying Transaction is Offshore Loan in the form of debt securities issuance, the value of the extension of Hedge Swap Transaction to Bank Indonesia will be adjusted to the value of the outstanding debt securities issued by the Bank; or
 - c. if an Underlying Transaction is declared business fund, the value of the extension of Hedge Swap Transaction to Bank Indonesia will be adjusted to the declared business fund value.
- (2) Mechanism for netting settlement calculation for a nominal value matching the value of a Bank's outstanding Offshore Loan or declared business fund at each extension period will refer to the mechanism for netting settlement

calculation for smaller nominal value at each extension set forth in Article 50.

- (3) Example of netting settlement calculation for the nominal value according to the outstanding Offshore Loan or declared business fund of a Bank at each extension period is specified in Appendix VIII, which constitutes an inseparable part of this Regulation.

CHAPTER VI

OMISSION OF HEDGE SWAP TRANSACTIONS TO BANK INDONESIA

Article 52

- (1) Bank Indonesia may omit Hedge Swap Transactions to Bank Indonesia.
- (2) The omission of Hedge Swap Transaction to Bank Indonesia set forth in paragraph (1) excludes transactions conducted for extension of Hedging Contracts and/or Hedge Swap Transactions to Bank Indonesia.

Article 53

- (1) Bank Indonesia will announce the omission of Hedge Swap Transactions to Bank Indonesia set forth in Article 52 within no later than 3 (three) business days prior to the omission date of Hedge Swap Transactions to Bank Indonesia.
- (2) The announcement set forth in paragraph (1) will be made through LHBUS System and/or any other means determined by Bank Indonesia.

CHAPTER VII

MECHANISM FOR SANCTION IMPOSITION

Article 54

- (1) A Bank that breaches the obligations relevant to the requirements set forth in Article 2 paragraph (5), Article 7 paragraph (1), Article 7 paragraph (3), Article 40 paragraph

(1), and/or Article 40 paragraph (2) will be imposed with the following sanctions:

- a. written warning; and
 - b. the obligation to pay amounting to 0.1% (zero point one percent) of the value of a Hedge Swap Transaction to Bank Indonesia in rupiah denomination by using:
 - 1) JISDOR for Hedge Swap Transaction to Bank Indonesia in United States dollar against rupiah; and/or
 - 2) the transaction middle rate of Bank Indonesia for Hedge Swap Transaction to Bank Indonesia in foreign currency other than United States dollar against rupiah,
on a transaction date.
- (2) The maximum payment obligation set forth in paragraph (1) amounts to Rp1,000,000,000 (one billion rupiah) per Hedge Swap Transaction to Bank Indonesia.
- (3) Any Bank that breaches the provisions for document completeness set forth in Article 8 and/or Article 40 paragraph (3) shall be sanctioned with a written warning.
- (4) Any Bank that breaches the provisions for settlements set forth in Article 35 paragraph (1) and/or Article 37 paragraph (1) shall be imposed with the following sanctions:
- a. written warning; and
 - b. payment obligation which is calculated based on:
 - 1) average Fed Fund rate applicable on the transaction settlement date plus margin of 200 (two hundred) basis points multiplied by the transaction value multiplied by 1/360 (one per three hundred sixty) for payment obligation settlement in United States dollars;
 - 2) average Bank Indonesia 7-Day (Reverse) Repo Rate applicable plus a margin of 350 (three hundred fifty) basis points multiplied by 1/360 (one per three hundred sixty) for payment obligation settlement in rupiah; or

- 3) average interest rate issued by the central bank or monetary authority in the relevant country (official rate) applicable on the transaction settlement date plus a margin of 200 (two hundred) basis points multiplied by transaction value multiplied by $1/360$ (one per three hundred sixty) for payment obligation settlement in foreign currencies other than United States dollars.

Article 55

- (1) Settlement of the payment obligation sanction set forth in Article 54 paragraph (1) letter b is applied by debiting the relevant Bank's rupiah checking account with Bank Indonesia.
- (2) Settlement of the payment obligation sanctions set forth in Article 54 paragraph (4) letter b item 1) or item 2) is applied by debiting the relevant Bank's foreign currency checking account or rupiah checking account with Bank Indonesia.
- (3) Settlement of the payment obligation sanction set forth in Article 54 paragraph (4) letter b item 3) is applied by debiting the Bank's rupiah checking account with Bank Indonesia at a conversion rate to rupiah based on the middle rate of Bank Indonesia on the transaction settlement date.
- (4) Bank Indonesia may change the margin set forth in Article 54 paragraph (4) letter b.

Article 56

Bank Indonesia may submit information on the written warning sanction imposition set forth in Article 55 to the Financial Services Authority.

CHAPTER VIII CLOSING PROVISIONS

Article 57

Upon enforcement of this Regulation:

- a. Bank Indonesia Circular Letter Number 16/2/DPM dated 28 January 2014 on Hedge Swap Transactions to Bank Indonesia;
 - b. Bank Indonesia Circular Letter Number 16/19/DPM dated 28 November 2018 on Amendment to Bank Indonesia Circular Letter Number 16/2/DPM dated 28 January 2014 on Hedge Swap Transactions to Bank Indonesia; and
 - c. Bank Indonesia Circular Letter Number 18/13/DPM dated 24 May 2016 on the Second Amendment to Bank Indonesia Circular Letter Number 16/2/DPM dated 28 January 2014 on Hedge Swap Transactions to Bank Indonesia,
- are repealed and declared invalid.

Article 58

This Regulation of Member of Board of Governors starts to take effect from its promulgation date.

For public recognition, it is hereby ordered this Regulation be promulgated in the Official Gazette of the Republic of Indonesia.

Established in Jakarta
on 21 August 2018

MEMBER OF BOARD OF GOVERNORS,

ERWIN RIJANTO

ELUCIDATION
OF
REGULATION OF MEMBER OF BOARD OF GOVERNORS
OF BANK INDONESIA
NUMBER 20/18/PADG/2018
ON
HEDGE SWAP TRANSACTIONS TO BANK INDONESIA

I. GENERAL

More competitive and integrated international financial system has formed a global economy facilitating capital flow movement and affecting rupiah liquidity and exchange rate movement.

As part of liquidity management and effort to minimize exchange rate risks, deepening of domestic foreign currency market is necessary among others through development of swap transaction activities for hedging.

Bank Indonesia will provide hedge swap instruments for domestic market players as part of financial market deepening, which is expected to increase economic investment activities in Indonesia, primarily exports which may in turn strengthen foreign reserves.

II. ARTICLE BY ARTICLE

Article 1

Self-explanatory.

Article 2

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Composite rank refers to the provisions for health level evaluation system issued by the Financial Services Authority.

Paragraph (4)

Self-explanatory.

Paragraph (5)

Self-explanatory.

Paragraph (6)

Letter a

Self-explanatory.

Letter b

Declared business fund is a term used in the provisions for business fund issued by the Financial Services Authority and/or provisions of Bank Indonesia for offshore loan.

Paragraph (7)

Self-explanatory.

Article 3

Self-explanatory.

Article 4

Self-explanatory.

Article 5

Self-explanatory.

Article 6

Self-explanatory.

Article 7

Paragraph (1)

Example:

In September 2019, Bank A signs 1 (one) offshore loan agreement in a foreign currency. The amount of Offshore Loan received by Bank A is USD500,000,000.00 (five hundred million United States

dollars) and JPY150,000,000.00 (one hundred fifty million Japanese yen). Pertaining to the Offshore Loan, Bank A submits 2 (two) Hedging Contracts, namely 1 (one) Hedging Contract in United States dollar and 1 (one) Hedging Contract in Japanese yen. Then, Bank A may submit 2 (two) Hedge Swap Transactions to Bank Indonesia, namely:

- a. Hedge Swap Transaction to Bank Indonesia in United States dollar in a nominal value of USD500,000,000.00 (five hundred million United States dollars) and tenor of 12 (twelve) months; and
- b. Hedge Swap Transaction to Bank Indonesia in Japanese yen. Bank A conducts a Hedge Swap Transaction to Bank Indonesia in a nominal value of JPY150,000,000.00 (one hundred fifty million Japanese yen) and tenor of 12 (twelve) months.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 8

Self-explanatory.

Article 9

Self-explanatory.

Article 10

Self-explanatory.

Article 11

Self-explanatory.

Article 12

Self-explanatory.

Article 13

Self-explanatory.

Article 14
Self-explanatory.

Article 15
Self-explanatory.

Article 16
Self-explanatory.

Article 17
Self-explanatory.

Article 18
Self-explanatory.

Article 19
Self-explanatory.

Article 20
Paragraph (1)
Example of Hedging Contract for a swap transaction on a Bank’s
underlying is as follows:
Bank Name : Bank A
Period : 2 years
Underlying : Contract for Offshore Loan
Foreign Currency Type : United States dollar
Nominal Value : USD500 million
Paragraph (2)
Self-explanatory.

Article 21
Self-explanatory.

Article 22
Self-explanatory.

Article 23
Self-explanatory.

Article 24
Self-explanatory.

Article 25
Self-explanatory.

Article 26
Self-explanatory.

Article 27
Self-explanatory.

Article 28
Self-explanatory.

Article 29
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Article 30
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Article 31
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Article 32
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Article 33
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Article 34
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Article 35

Self-explanatory.

Article 36

Self-explanatory.

Article 37

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Article 38

Self-explanatory.

Article 39

Self-explanatory.

Article 40

Self-explanatory.

Article 41

Self-explanatory.

Article 42

Self-explanatory.

Article 43

Self-explanatory.

Article 44

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Article 45

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Article 46

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Article 47
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Article 48
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Article 49
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Article 50
Self-explanatory.

Article 51
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Article 52
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Article 53
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Article 54
Self-explanatory.

Article 55
Self-explanatory.

Article 56
Self-explanatory.

Article 57
Self-explanatory.

Article 58
Self-explanatory.